

Remarks of R. O. Viets, President and CEO, CILCORP Inc.
before the Committee on Commerce Subcommittee on
Energy and Power
May 2, 1997

Mr. Chairman and Members of the Committee:

Thank you for your interest in this issue and for giving me the opportunity to testify in support of "choice" for all customers in electricity markets. Some of you are aware that CILCORP Inc. and its operating subsidiaries, Central Illinois Light Company (CILCO) and QST Enterprises Inc. (QST), are perhaps the most active proponents in the country for allowing customers to choose their electricity suppliers. We believe that customers, by making their choices in a free market, will impose much higher standards on suppliers than the existing systems of state and federal regulation. Furthermore, unlike regulators, customers who have choice among suppliers do not hold long hearings or rely on technical briefs by counsel before they make decisions. Customers achieve satisfaction much more quickly in competitive markets in which customers determine the "winners".

In August 1995, to advance our position on this issue, our utility became the first in the United States to propose a pilot program in electric retail competition. Since May 1996, residential and commercial customers in four central Illinois communities; commercial customers in a greenfield site near the intersection of two major highways; the commercial tenants of the largest retail shopping mall in down-state Illinois; and eight large industrial customers have had the freedom to choose electricity suppliers other than CILCO. About 36% of the residential customers included in the initial pilot have elected to buy their energy from an alternative supplier, and about 80% of the commercial and industrial customers have elected to do so.

Thus far, after one year, no customers have asked to reverse their decisions, and I am not aware of a single customer complaint from those involved in the pilot. You should also know that prices decreased between 15% and 40% for the participating customers. That's a decrease off of CILCO's prices, which are the lowest among Illinois' regulated utilities and which are about 30% below the national averages for electricity prices.

The CILCO pilot program has demonstrated all the things that high-cost utilities didn't want to know: (1) customers like choice; (2) competition works; (3) prices drop significantly; and (4) suppliers who have good reputations for reliability, good service and low costs have a distinct advantage in competitive markets.

Illinoisans, in particular, will benefit from customer choice.

More than any other state that has addressed the issue of customer choice, Illinois presents the contrasts of electricity service under a regulated monopoly system versus electricity service that would be available under a competitive system. The regulated system in Illinois has allowed the inclusion in utility rate bases of most costs incurred in the construction of major generating facilities. The result is that the utilities that incurred huge cost overruns in construction programs now have rates that are out-of-line with the prices charged by neighboring utilities.

Unlike the situation in California and some of the New England states where all of the electric utilities have relatively high rates, customers of some Illinois utilities are painfully aware that their in-state neighbors are receiving identical kilowatt-hours at substantially lower prices. In many counties in this state, residential prices for electricity vary by more than 50%. That becomes a politically intolerable situation for elected officials.

Even more important, economically, is the comparison of prices for electricity in Illinois compared to the prices in surrounding states. Except for the lower prices charged by CILCO, which are about average in comparison to prices in the surrounding states, Illinois is an island of high prices for electricity. In a study completed last August by two professors of economics at Clemson University, the conclusion was that Illinoisians are paying \$2.7 billion annually more for electricity than they would be charged in surrounding states. An average residential customer would save more than \$300 annually if his or her prices were reduced to the average price paid by residential customers in the states bordering Illinois.

It is estimated that 90% of Illinois' electricity consumers pay more than 50% above the regional average price.

The economic consequences to Illinois are enormous. A study conducted jointly by the University of Illinois and the Federal Reserve Bank of Chicago for Crains Chicago Business concluded that an additional 23,000 to 37,000 jobs would be created in the Chicago area alone if electricity rates were reduced 30%.

Since there has been no argument advanced to distinguish for consumers that the price variations are justified by discernible conditions or qualities of service, the consumers have only the pricing differences to judge. That contrast of prices plus the growing awareness by customers that choice is being implemented in other utility systems has increased the probability that a solution will be enacted in Illinois.

I strongly believe that retail competition in electricity markets is inevitable. Customers will demand it. Choices are already available to many large industrial and large commercial customers which have the capital to construct their own technologically advanced generation

systems. In many cases, those systems are more economically efficient and more reliable than existing systems used by the local utilities.

Federal legislation establishing a target date for choice to be made available to all customers will help to assure that the lower prices and other benefits of new technology in electricity generation are available to residential and small commercial customers, as well. Federal legislation mandating an early date for all customers to have a choice of electricity suppliers also will help to break the strangle-hold that many high-cost utilities exert over state political processes. Funded by huge cash flows resulting from depreciation and returns allowed on high-cost, obsolete generating plants, these utilities apply significant political pressure to avoid challenges to their high rates. Knowing that a federal policy directive exists would help state legislators and regulators focus on the implementation process. While federal legislation should avoid interfering with unique and historically established state procedural requirements, the benefits of competition to our national economy are too great to defer indefinitely. Providing leadership through a federal legislative directive will advance the competitiveness of our nation in a global economy.

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Summary of Major Points

- All customers should be allowed to choose their electricity suppliers.
- CILCORP became the first electric utility in the United States to propose and implement a retail competition pilot program for all customer classes, including residential customers.
- The customers in the CILCORP pilot who have elected to participate have enjoyed lower prices and good service, with no complaints and no decisions to go back to their former monopoly provider.
- Illinois is unique in that it has both high cost and low cost electricity service; prices vary greatly for many customers proximately located but served by different utilities.
- Illinois consumers pay \$2.7 billion annually more for electricity than they should; most pay 50% more than the regional average price.
- A 30% electric rate reduction in the Chicago area alone would create up to 37,000 jobs.
- Federal legislation should establish a target date by which choice must be made available to all customers.